

Message Text

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PAGE 01 QUITO 02419 082108 Z

64

ACTION ARA-17

INFO OCT-01 ADP-00 EUR-25 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 SCEM-02 L-03 H-02 SS-15

NSC-10 RSR-01 /149 W

----- 008063

R 081948 Z MAY 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 7377

INFO AMCONSUL GUAYAQUIL

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E. O. 11652: N/ A

TAGS: ENRG, EC

SUBJECT: SUSPENSION OF PAYMENTS TO NORSUL AND PHOENIX

REF: QUITO 0998; GUTHRIE ARA/ EP- CHAPLIN TELCON MAY 3

1. SUMMARY: TEXACO- GULF' S TWO PERCENT PAYMENT ON PRODUCTION FROM CERTAIN WELLS TO THE NORSUL AND PHOENIX COMPANIES OF CANADA WAS SUSPENDED BY ORDER OF THE GOE IN LATE FEBRUARY. ACCORDING TO TEXACO, THE ECUADOREAN REPRESENTATIVE OF THE AFFECTED COMPANIES IS QUIETLY NEGOTIATING WITH THE GOE TO REINSTATE THE PAYMENTS. END SUMMARY.

2. BEFORE RELEASE TO THE PRESS OF MINISTER NATURAL RESOURCES JARRIN FEBRUARY 22 LETTER TO FINANCE MINISTER (REFTEL) CHALLENGING 2 PERCENT ROYALTY PAYABLE BY TEXACO- GULF TO NORSUL AND PHOENIX COM- PANIES, JARRIN SENT LETTER TO TEXACO- GULF ON FEBRUARY 26 INSTRUCTING CONSORTIUM TO SUSPEND SUCH PAYMENTS. T- G LAWYERS CONCLUDED COMPANY SHOULD COMPLY WITH SUSPENSION. REPRESENTATIVES OF NORSUL AND PHOENIX MET WITH T- G OFFICIALS IN CORAL GABLES IN MARCH AND THREATENED SUIT. WHEN T- G FAILED TO BUDGE, REPRESENTATIVES OF THE HOLDING COMPANIES TURNED TO QUITO. ACCORDING TO TEXACO ATTORNEY MATKINS FROM CORAL

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GABLES HEADQUARTERS, UNDER NORSUL'S LEAD THE HOLDING COMPANIES HAVE HIRED ANDRES CORDOVA, WELL- KNOWN LIBERAL PARTY POLITICIAN, TO REPRESENT THEIR INTERESTS AND HE HAS BEGUN PRIVATE DISCUSSIONS WITH KEY MINISTRY PERSONNEL AND ADVISORS . TEXACO SAYS CONFIDENTIALLY THAT MINISTRY NO LONGER INSISTS THAT PRODUCTION PAYMENT IS EXTRA- LEGAL AND IS TALKING ABOUT A POSSIBLE RENEGOTIATION OF THE TERMS OF THE PAYMENT.

3. BY WAY OF BACKGROUND, 2 PERCENT PAYMENT ON TEXACO- GULF PRODUCTION ARISES FROM TRANSFER OF THE THEN 650,000 HECTARE COCA CONCESSION THROUGH A PRIVATE CONTRACT BETWEEN MINAS Y PETROLEOS, ON ONE HAND, AND TWO ECUADOREAN SUBSIDIARIES OF TEXACO AND GULF, ON THE OTHER, IN JULY 1965. TEXACO- GULF SAYS IT IS NOT STRICTLY A ROYALTY; IT IS A NET PAYMENT AND IS PAYABLE ONLY IN CASH, NOT IN KIND. GOE AUTHORIZED THE TRANSFER OF THE COCA CONCESSION FROM MINAS Y PETROLEOS TO TWO OTHER ECUADOREAN SUBSIDIARIES OF TEXACO- GULF IN DECEMBER 1965 AND THE CONTRACT FOR THIS TRANSFER WAS SIGNED AND REGISTERED IN MARCH 1966. WHEN T- G BEGAN PRODUCTION IN 1972, THERE WAS A HASSLE BETWEEN T- G AND THE CURRENT 50-50 HOLDERS OF THE RIGHT TO THE PAYMENT, NORSUL AND PHOENIX, OVER PAYMENT MECHANISMS. IN JANUARY 1973 THESE DIFFERENCES WERE RESOLVED. BUT MINISTRY LETTERS OF FEBRUARY AND MARCH LED TO SUSPENSION OF ACTUAL PAYMENTS.

4. IN RESPONDING TO CONGRESSIONAL REFERRAL OF STOCKBROKER/ STOCKHOLDER CONCERN, SUGGEST THAT DEPARTMENT POINT OUT THAT GOE ORDERED THE SUS- PENSION, BUT NOT THE CANCELLATION, OF PRODUCTION PAYMENTS BY TEXACO- GULF IN FEBRUARY 1973. GOE QUESTIONED LEGALITY IN ECUADOR OF THE PAYMENTS ARRANGEMENT, WHICH WAS STIPULATED IN A PRIVATE INTER- COMPANY CONTRACT OF 1965. THE PRESENT CLAIMANTS OF RIGHTS TO THE PRODUCTION PAYMENTS, NORSUL OIL AND MINING LIMITED AND PHOENIX CANADA OIL LIMITED, HAVE RETAINED COMPETENT LEGAL REPRESENTATIVES IN ECUADOR AND ARE SEEKING TO RESOLVE THEIR PROBLEM AMICABLY WITH THE GOE.

5. INTERFERENCE BY THE USG WITH THIS PROCESS WOULD JEOPARDIZE THE CHANCES THAT THESE TALKS WILL RESULT IN A SOLUTION SATISFACTORY TO AMERICAN STOCKHOLDERS IN THE CANADIAN COMPANIES. IF THE DEPARTMENT SHOULD REQUIRE ADDITIONAL INFORMATION, IT IS SUGGESTED THAT NORSUL BE CONTACTED FOR FURTHER DETAILS.

6. THE EMBASSY ASSUMES THAT THE MAJORITY OWNERSHIP OF NORSUL AND LIMITED OFFICIAL USE

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PHOENIX IS AMERICAN, ALTHOUGH REQUESTS HAVE BEEN MADE ON OCCASION
TO
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BURNS

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*** Current Classification *** LIMITED OFFICIAL USE
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: <CONCATENATED>
Draft Date: 08 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
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Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730538/aaaaifrr.tel
Line Count: 253
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 QUITO 998
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 18 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <18-Jan-2002 by martinjw>; APPROVED <08 FEB 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> mcm 971223
Subject: SUSPENSION OF PAYMENTS TO NORSUL AND PHOENIX
TAGS: ENRG, CA, EC, NORSUL
To: ARA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005